

March 6, 2002

TO: Scott Darkenwald, Department of Administration
Dave Galt, Department of Transportation
Jeff Hagener, Department of Fish, Wildlife and Parks
Scott Seacat, Legislative Auditor
Bob Brown, Secretary of State
Jan Sensibaugh, Department of Environmental Quality
Mike McGrath, Attorney General

cc: All Other State Agencies and Centralized Services Administrators

FROM: Chuck Swysgood, Budget Director
Office of Budget and Program Planning

SUBJECT: Request for certain schedules and guidelines for Preparation of State-Wide Cost Recovery Rates For Certain Intragovernmental Services (**Fixed Costs/Special Purpose Schedules for the 2005 Biennium Budget**)

This is a request for statements of certain service rates or certain expenditure accounts that will be used in development of the 2005 biennium executive budget. Guidance in this endeavor applies to:

- 1) the development of all "fixed cost" allocations--those expenditure accounts for which dollar-specific amounts are budgeted; and
- 2) adjustments for certain other expenditure accounts which are primarily driven by the financial performance of the proprietary operation which have projected annual expenses of \$1 million or more statewide.

If you have questions regarding these guidelines, please contact Matt Bugni, Executive Budget Analyst at extension 4899.

Scope

1. Submit **statements** of costs to the OBPP, attention of Matt Bugni, on or before June 14, 2002, for the following:

Secretary of State: Administrative Rules, records management, and microfilming charges.
D of A: Equipment price list / schedule
DOJ: Agency Legal Services
DEQ: Energy Conservation Account repayment schedule

2. Submit the following "fixed cost" **allocations and supporting documentation**

on or before June 14, 2002 to OBPP, attention of Matt Bugni, with amounts allocated to client agency. If there is to be a change in an allocation method, please discuss with Matt prior to June 14.

<u>Exp. Account</u>	<u>Name</u>	<u>Administering Agency</u>
62104	Insurance	D of A
62113	Warrant Writing	D of A
62114	Payroll Service	D of A
62122	Audit	OLA
62148	SABHRS Admin costs	D of A
62174	Data Network	D of A
62307	Messenger Service	D of A
62527	Capitol Complex Rent	D of A
62770	Capitol Complex Grounds	FWP
62875	MT PRRIME bond costs	D of A
62895	SFCAP	D of A

3. Submit **advisory adjustment factors and supporting documentation** for the following objects of expenditure or service categories to OBPP by June 14, 2002. The expenditure accounts identified below are those with annual projected expenses in excess of \$1 million statewide that are primarily dependent on the financial performance of the cost center.

<u>Object</u>	<u>Name</u>	<u>Administering Agency</u>
62141	Tape Storage Charges/DoA	D of A
62142	Disk Storage Charges/ DoA	D of A
62168	Read/Write Computer Trans/DoA	D of A
62172	Batch CPU Seconds/DoA	D of A
62177	TSO CPU Seconds/DoA	D of A
62178	IDMS CPU Seconds/DoA	D of A
62180	CICS CPU Seconds/DoA	D of A
62370	Telephone Equip/DoA	D of A
62385	Long Distance Charge/DoA	D of A
62510	In-State Motor Pool	DOT

General Guidelines

OBPP Guidelines, OMB Circular A-87, and Budgets for Client Agencies - Consider the requirements of OMB Circular A-87 (A-87) in the development of rates applicable to federal programs. In many instances, the requirements of A-87 are more restrictive than the limitations established in this memorandum. The responsibility for assuring compliance with federal A-87 requirements rests with the administering agency. Based on the information approved in these requested schedules, client agencies will build their budgets. Increases in rates by the administering agencies during the 2005 biennium would impose budget constraints on the other state agencies.

Supporting Documentation - An increase or decrease in rates must be accompanied

by supporting documentation. For thorough analysis, it is important to indicate if your FY 2003 rates are different from your FY 2002 rates. See detail instructions later in this memo.

Working Capital Reserves - (This section may be amended dependent on action items at the Legislative Finance Committee March 14-15)

Working capital reserves will be considered in the analysis of what rates are necessary/prudent/ approved. At the end of the 2005 biennium, projected working capital reserves may not exceed 60 days average daily expenses, unless a different number of days have received federal approval.

Agencies may submit exception requests to the 60-day working capital reserve provision. Known exceptions to the provision for working capital reserves include: 1) SFCAP rates, for which working capital reserves are inapplicable; and 2) the state self-insurance fund for tort claims which maintains an additional reserve for all reported claims which may adjudicate or require payment at the end of the biennium based on historical experience and “worst case” estimates.

Projecting FY 2004-2005 Expenses - Projected expenses must include both direct costs and a “fair share” allocation of indirect costs shared by other cost centers (e.g., allocation of administrative overhead). As a general “rule of thumb”, administering agencies may project personal services with no vacancies for the current FTE level and use the October 2003 pay plan amounts each year. Operating expenses are to be calculated using FY 2002 actuals and zero inflation.

If there are major objects of expenditure which are expected to increase/decrease by amounts significantly different than the 0% factor, these cost assumptions must be identified and accompanied by supporting documentation.

The typical definitions of “Present Law” and “New Proposal” are not quite applicable to the HB 576 proprietary accounts. However, for the purpose of developing a conceptual base for changes to program services or elimination of services, program changes greater than \$200,000 are defined as “new proposals” and may be factored into the rates. Consistent with the EPP Instructions, PL and NP decision packages will be required now, or in August budget request submissions, to provide some comparability with other budget requests.

Expense assumptions for SFCAP rates may be increased by the amount of any under recoveries in previous periods.

Computation of Inflation/Deflation Factors - Presently the OBPP is using an inflation/deflation factor of 0% for FY 2004 and FY 2005. To the extent that other inflation/deflation factors are built into the 2005 biennium budget, these and other expenditure accounts will be considered in a separate exercise later in the budget development process. At this stage of the process, the 0% factor is to be applied to

your proposed rates/schedules.

If two or more rates are applicable to a single expenditure account, the administering agency should develop a single adjustment factor by deriving a weighted average. For example, all in-state motor pool charges are recorded in object 62510, yet the DOT motor pool rents several classes of vehicles, each with a separate mileage rate. For purposes of developing an adjustment factor, DOT should develop a weighted average rate for all vehicle classes, comparing the FY 2002 result to the projected FY 2004 and FY 2005 results.

Segregations of “Service Categories” and Inclusion of All Services Within a Category - Account for all service categories, regardless of whether there are separate accounting entities. A service category is defined as a set of closely related services (two or more). The policy for this requirement is that intragovernmental services should be managed as a cooperative enterprise. The “customers” for one service category should not subsidize another unless such subsidies have been explicitly considered in the policy-making process and are justified from the perspective of the state enterprise.

Next steps - The OBPP will be analyzing these schedules and rates in June and July. And, on July 11th and 12th, OBPP has scheduled question and answer sessions (Fixed Cost Workshops) for agencies to discuss and question the service provider regarding these rates. Please begin preparing a presentation for this dialogue.

Supporting Documentation for items listed under Scope #2 and #3 - Submit electronic supporting documentation outlined below.

- I. General description of service(s), identification of direct and indirect cost centers (by name and by org numbers), description of current rate methodology, and if the methodology is to change in the 2005 biennium, submit the description of the new methodology.
- II. Historical and projected demand for each service; units of service FY 1998 through FY 2005; summary of how demand is projected.
- III. Analytical Reports
 - A. Projected FYE 2002 expenses at second level (by using actuals through May 2002 and projected FYE 2002), projected revenue, and projected working capital balance¹. (For each service category, if applicable). See example on the next page.
 - B. Projected FY 2003 expenses (direct and indirect) and revenues; projected FYE 2003 working capital balance¹. (For service category, if applicable)
 - C. Projected FY 2004-05 expenses; projected FYE 2005 working capital balance¹, incorporating the following:
 - 1. Projected base for direct costs by first level; identify cost drivers in excess of 0% factor
 - 2. Present Law and New proposals (as decision packages would be)
 - 3. Indirect costs. Describe method of allocation.See example.
- IV. Proposed rate structure by service; proposed rates for FY 2004-05 with AND without the new proposals.
- V. Schedule of "Fixed Cost" Rates allocated to client agencies

NOTE: Proprietary funds will be completing the next step in the budget process with instructions to be forthcoming on April 15, 2002. Budget requests will be due August 31, 2002, including completion of the reporting format and the narrative for the budget book, and for legislative analysis.

For Service #1

III (A) Example

	Actuals through May	Projected to year end	Estimated total
Revenue	\$880,000	\$ 96,400	\$976,400
Expenses			
Personnel Services	\$640,000	\$64,000	\$704,000
Professional Services	\$155,500	\$ 5,600	\$161,100
Supplies	\$ 6, 450	\$ 630	\$ 7,080
Depreciation	\$ 1, 500	\$ 125	\$ 1,625
Communications	\$11,000	\$ 1,000	\$ 12,000
Rent	\$ 4, 500	\$ 400	\$ 4,900
Indirect Costs	\$34,000	\$ 4,000	\$ 38,000
Ect...	\$43,000	\$ 2,000	\$ 45,000
Total	\$895,950	\$77,755	\$973,705

Note: Projected working capital of service #1 is \$5,000. Retained earnings from 99 of \$2,305 plus \$2,695 from this year in this service category (This service category is 30% of 065xx's GLS 7000-series.)

III (C) Example FY 2004

	Expenses: FY02	2004 Expenses	New proposal #1 ³	New Proposal #2 ⁴
Personnel Services	\$704,000	\$858,000 ¹	\$337,000	
Professional Services	\$161,100	\$161,100	(\$161,100)	(\$130,000)
Supplies	\$ 7,080	\$ 29,080 ²	\$ 4,000	
Depreciation	\$ 1,625	\$ 1,625		
Communications	\$ 12,000	\$ 9,000	\$ 1,000	\$2,500
Indirect Costs ⁵	\$ 38,000	\$ 47,000	\$ 16,850	
Rent	\$ 4,900	\$ 4,900	\$ 2,000	
Etc.	\$ 45,000	\$ 45,000	\$ 4,000	
Total	\$973,705	\$1,155,705	\$203,750	(\$127,500)
Applicable rate	.8114	.9630	1.1328	.8568

¹ Pay plan exceptions will be in place due to personnel retention issue.

² Fixed assets less than \$5,000 are replaced this year.

³ Adding FTE will eliminate the need to contract out. Institutional knowledge will remain with the enterprise.

⁴ Accessing a certain site on the Internet provides on-line professional expertise.

⁵ Indirect costs that are allocated to this service are the administrative unit, and the department's cost allocation plan for the director's office. These costs are allocated based on personnel costs in the service area.

In addition to the above, FY 2005 must include estimated working capital balance.